

Welcome to Session 5!



# General Budget Support: A New Approach from Other Donors?

**Speakers: Joe Lieberman, Diane Ray,  
and Brian Frantz**

**Tuesday, July 27, 2004**



# ***General Budget Support: A New Approach from Other Donors?***

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**Session Organizer: Joe Lieberman, PPC, USAID**

## **Speakers:**

- **Joe Lieberman, PPC, USAID**
- **Diane Ray, Development Information Services, USAID**
- **Brian Frantz, AFR, USAID**

- ✓ **Questions and Discussion**
- ✓ **Closing**
- ✓ **Fill out your evaluations!!**



# **When is General Budget Support the Most Appropriate Way to Support Development?**

**MOZAMBIQUE, MALAWI, TANZANIA  
COUNTRY CASE STUDIES**

## **SUMMER SEMINAR**

**July 27, 2004**

**Joseph Lieberman, USAID Evaluation  
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# WHAT IS GENERAL BUDGET SUPPORT (GBS)?

- Donors usually fund development projects and manage project implementation.
- Under General Budget Support (GBS), rather than doing projects, donors provide aid funds to support the government's budget. Donor funds are not earmarked for specific purposes.
- The government spends GBS funds on its own development programs using its own allocation, procurement, and accounting systems.
- Under GBS, conditionality focuses on improving government planning, management and the effectiveness of the overall budget process.



# ARGUMENTS IN FAVOR OF GBS

- If a donor runs an aid program, it belongs to the donor and that may explain why so many donor projects are not sustained.
- By moving from donor projects to GBS, LDC governments will do a better job of reducing poverty.
- If an LDC government is responsible for the program it will identify the most critical problems and make sure they are solved.
- GBS is less costly for donors since they don't have to manage projects and less costly for the LDC since it doesn't have to deal with 20 different donors, each with its own reporting and financial requirements.



# **GENERAL BUDGET SUPPORT (GBS) IS BEING HAILED AS A GOOD WAY TO DELIVER DEVELOPMENT ASSISTANCE**

- **GBS has its strengths and weaknesses. Success depends on individual country conditions and how they fit with the benefits and drawbacks of GBS.**
- **The key is to determine which country conditions are needed for GBS to be successful.**



# The GBS Field Studies

- Today we'll look at three countries where we have completed evaluations: Malawi, where GBS has not been successful; and Mozambique and Tanzania which have had some success.
- There are two alternative ways of assessing GBS:
  - What minimum country conditions are necessary before donors can consider GBS? That was the approach for the Mozambique and Malawi Studies.
  - Has GBS led to the successes claimed for it and are country capabilities improving? That was the approach for the Tanzania Study.



# **IN OCTOBER 2003 USAID DID FIELD ANALYSIS OF GBS IN MOZAMBIQUE**

- **Mozambique has had success with General Budget Support and some problems.**
- **The following slides look at the country conditions necessary for GBS successes.**
- **They state the issues, then the findings and finally the lessons from Mozambique and what they mean for other country programs.**





# **SERIOUS and SOUND MULTIYEAR GOVERNMENT PLANNING**

- Donors give Mozambique high marks for its Vision 2025 long-range plan and its medium-term poverty reduction plan (PARPA).
- The plans identify key problems, the causes of poverty, and an effective poverty reduction approach.

## **LESSONS**

- A government must have a well-designed, analytically sound plan and an appropriate policy framework to promote equitable growth.
- Must identify which services the government can realistically provide and those that can be delivered more effectively by the private sector or NGOs.



# COUNTRY OWNERSHIP

- Mozambique's government has a sound poverty reduction plan and is fully involved and responsible for policy and budget decisions. It works closely with donors and NGOs. IT OWNS THE DEVELOPMENT PROCESS.

## LESSONS

- In many LDCs, government is very cooperative. It asks, "What do your donors want to do, how much money will we get, where do we sign, and let us know when you have completed the development program." The donor is in charge of doing development, not the country.
- Development succeeds only if government is a committed and active leader of the policy and budget process.



# GOVERNMENT TECHNICAL AND MANAGEMENT CAPABILITIES

While Mozambique's planning capabilities are good, its technical, financial, and management capabilities are weak. Most donors are not ready to shift a major portion of their programs to GBS.

## LESSON

It is risky to provide GBS funds when government capacity is lacking. Skilled personnel must be in place to plan and implement a development program. Otherwise programs will fail.



# LONGER TERM PLANNING IS REFLECTED IN ACTUAL EXPENDITURES

- Mozambique has a well-designed development plan and medium-term expenditure framework.
- But a plan is only as good as its results.
- Mozambique's annual budgets are not directly related to policy planning objectives.

## LESSONS

- Annual technical ministry expenditures should reflect longer-term plans.
- Otherwise, GBS will not have the hoped-for impact.



# ACCOUNTABILITY

- A country needs credibility with donors and citizens.
- Accounting records and audits weak to non-existent in Mozambique.
- Financial discipline and sound budget execution lacking.
- Plans for decentralization will put even more strain on the system.

## LESSONS

- A government's financial and accounting systems must ensure that funds are spent effectively.
- Donors need to undertake fiduciary risk assessments to identify problems.
- Accountability is an essential condition that must be met before GBS can be effective.



# RESULTS

- To assure that GBS is the most effective way to reduce poverty, country must measure development performance.
- Mozambique's Performance Assessment Framework includes performance indicators and expected outcomes for each sector over 5 years.
- Some targets are overly ambitious but on balance it is a good results measurement system.

## LESSON

- The linkage between GBS and poverty reduction needs to be demonstrated. GBS requires sound performance monitoring and measurement of economic and social changes.



# DISBURSEMENT PREDICTABILITY

- Project aid tends to be irregular and subject to unilateral decisions by donors.
- In contrast, GBS funds should be provided in regular disbursements each year, every year.
- However, in Q1 2003, GBS donor funds were delayed (donor policy concerns and government failed to provide needed data). Government shut down.

## LESSONS

- GBS disbursements may not be predictable.
- If the government is to implement well-ordered programs, donors need to provide their promised GBS financing on time.
- By the same token, the government must meet its financial and policy commitments.



## CORRUPTION...

- Corruption has severely damaged Mozambique's financial sector.
- Petty corruption is pervasive.
- In Mozambique the press, parliament, and civil society are no match for a government that allows corruption to grow rapidly.





## **CORRUPTION REDUCED (cont.)**

### **LESSONS**

- **Petty corruption is a capricious and regressive tax on the poor.**
- **The bigger danger, based on experience in other countries, is that corruption starts small but tends to increase until it creates serious economic distortions and destroys respect for the government.**
- **GBS cash transfers are at high risk in such an environment and may not be effective. Donors may want to avoid such situations.**



# COMPETITIVENESS

- Mozambique has inappropriate labor, company, and trade regulations.
- Instead of trying to regulate markets, the government should be cutting red tape and controls.
- The present system encourages corruption and reduces incentives to invest and export.

## LESSONS

- GBS is ill suited to deal with these microeconomic and management problems.
- Bilateral donor technical assistance projects and policy reform programs may be the best way to address these problems.



# LESSONS FROM MALAWI— BASED ON A MARCH 2004 FIELD EVALUATION

Diane Ray



# LESSONS FROM MALAWI—BASED ON A MARCH 2004 FIELD EVALUATION

- Country conditions make it difficult to do GBS.
- Over the last two years there have been almost no donor GBS disbursements.



# MACROECONOMIC AND SECTOR POLICY REFORMS

- Malawi has sound development strategies and a good PRSP but is making little development progress.
- The problem seems to be a lack of commitment and will at the top levels of the government.
- Monetary and fiscal policies are out of control. Government debt, interest rates, inflation and public expenditures increasing at an unsustainable pace.
- There is a disconnect between policy and the annual budget. It is difficult to see if development priorities are being implemented. Donor budget support makes little sense in such a situation.



## **BUDGET DISCIPLINE AND SOUND FINANCIAL SYSTEMS**

- **If a donor is going to support a country's budget, the country must have an effective budget system. Budget transparency, execution and accounting are extremely weak in Malawi.**
- **Government financial systems must assure that funds are spent for their intended purposes. Donors find it difficult to provide budget support when they are not sure how the money will be spent.**



## **BUDGET DISCIPLINE AND SOUND FINANCIAL SYSTEMS (cont.)**

- **Over the years in Malawi, many donor-supported financial and accounting systems have been launched with few results so far.**
- **Governance reforms are needed to improve service delivery and accountability.**
- **Efforts are needed to encourage domestic oversight from parliament, NGOs, media and civil society.**



# GOVERNMENT MANAGES AND OWNS THE DEVELOPMENT PROCESS

- Compared to other low-income countries, Malawi's senior managers are well trained and highly skilled.
- Mid- and lower-level lack skills. This is compounded by high HIV/AIDS rates (15% of adults).
- Donors need to provide high levels of technical assistance and training.
- Effective HIV/AIDS programs may be as important as skills training.





# GOVERNMENT MANAGES AND OWNS THE DEVELOPMENT PROCESS (cont.)

- Corruption at the highest political levels is a rapidly growing problem.
- When senior government officials abuse the system for personal gain, it is difficult for donors to justify aid. Budget support cash transfers are high risk.
- Policy reforms must have government ownership. In Malawi, USAID encouraged the Dept. of Environmental Affairs to manage the adoption of reforms.
- Where there are skilled personnel and low levels of corruption, donors should encourage country ownership of the development process.



# General Budget Support in Tanzania

**Brian Frantz**  
USAID/AFR/DP/POSE

**27 July 2004**



# The Partnership in Tanzania

- PRS, TAS, IMG
- Net ODA over \$1.2b in 2002
- Program Assistance increased from \$281m in FY02 to \$515m in FY04
- GBS (PRBS and PRSC) rose from \$231m to \$404m over this period
- Trend is to shift toward baskets/GBS
- Donors that do not typically provide GBS are doing so in Tanzania



# Policy Dialogue

- Partnership Framework outlines general rules and objectives of GBS
- PAF specifies benchmarks used by donors to make disbursements
- Mid-year and annual reviews of PAF, budget review, annual PER
- Other reforms: LGRP, PFMRP, Poverty Monitoring System, etc.



# Public Expenditure Management

- Is public expenditure consistently allocated to PRS priority sectors?
- Are sectoral allocations appropriately divided between central/local levels?
- Are allocations for local level equitably divided among districts?
- Are allocations for local level making their way there?
- Are funds being spent appropriately?



# Capacity Constraints & Corruption

- Capacity constraints - especially financial - and corruption go together
- Is GBS a good instrument to deal with both?
- Are projects less affected by capacity constraints and corruption?
- Are capacity constraints and corruption less prevalent in non-governmental sectors?



# Democracy & Sustainability

- Has GBS strengthened democracy?
  - **Capacity constraints within Parliament and civil society to exercise oversight**
  - **Effect of patronage networks**
- How does GBS reduce the need for future aid?
  - **Macro stability and private sector development in the PAF**
  - **Tax effort**



# Predictability & Transaction Costs

- Is GBS associated with improved predictability of aid disbursements?
  - **Donors sanction poor performance with reductions in GBS the next year**
  - **Donors seek to disburse GBS as early as possible in Tanzania's FY**
- Has GBS lowered transaction costs?
  - **Same or higher for both donors and Government**
  - **But is this really a negative outcome?**





# Conclusions

- Few of the positive intermediate/process results often attributed to GBS are automatic (OPM and ODI, 2002)
  - **Conscious efforts to include discussion of certain issues in policy dialogue**
  - **Some postulated results (e.g., predictability) may be more difficult to achieve under GBS**
  - **Others (e.g., strengthened democracy) are unlikely to result at all**
  - **Still others (e.g., reduction of transaction costs) may not necessarily be desirable**



# Conclusions (Cont.)

- Non-GBS complementary investments are needed for GBS to deliver impact results
  - “Demand side” of service delivery (Pritchett and Woolcock, 2004\*)
  - Parliamentary, NGO, and citizen oversight; media development (Kaufmann, 2003)
  - Capacity building

– \*<http://www.sciencedirect.com/science/journal/0305750X> <http://tinyurl.com/48x4g>



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## **HIV/AIDS: Mitigating the Impacts on Development and Complex Emergencies**

**Session Organizer: Anne Ralte, PPC**  
Tuesday, August 3, 2004

